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HOUSING AND URBAN DEVELOPMENT

HUD's Management Deficiencies, Progress on Reforms and Issues for Its Future

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Mr. Chairman and Members of the Subcommittee:

Two years ago before this Subcommittee, we discussed the most important management and budget problems facing the Department of Housing and Urban Development (HUD) as part of your effort to help set the stage for addressing those problems. We are pleased to return here today to discuss progress that has been made since then and the problems and challenges that remain for both the Congress and HUD.

HUD remains a Department with serious management and budgetary problems. While it has formulated approaches and initiated actions over the last 2 years to address some of its most significant problems, those actions are far from complete. HUD's programs continue to represent large federal loan commitments and discretionary spending, much of which goes for rental assistance to those people who are least able to afford decent housing. Therefore, we believe that controlling spending for these programs will require a continued reexamination—by both the Congress and the administration—of federal housing policies and the type of program delivery systems best suited to carry out those policies.

As we said in a statement to your full Committee on February 12 of this year, the Congress is an important partner in working with executive branch agencies to implement the Government Performance and Results Act (GPRA), which focuses on clarifying missions, setting programmatic goals, and measuring performance toward those goals.[1] Building on GPRA's call to measure performance better and focus on results, the Congress has enacted additional important reforms including (1) the Government Management Reform Act of 1994, which expanded the 1990 Chief Financial Officers (CFO) Act's requirements for financial statements and controls that can pass the test of an independent audit; and (2) the 1996 Clinger-Cohen Act, which is directed at more effective management and use of information technology to better support agencies' missions and improve program performance.

Our statement today is based on several reports that we have issued and testimony that we have given over the past 2 years as well as our ongoing work. (See app. I for a list of related GAO products). It will focus on (1) the long-standing management deficiencies that hamper HUD's effectiveness, progress made in addressing these problems, and the work remaining in the coming years; (2) the problems in HUD's assisted and public housing

[1]Managing for Results: Using GPRA to Assist Congressional and Executive Branch Decisionmaking (GAO/T-GGD-97-43, Feb. 12, 1997).

programs—which account for the largest portion of its outlays and a vast share of the budget authority HUD expects to need in the future; and, (3) the need to achieve consensus on federal housing policy, HUD's mission, and the resources devoted to achieving that mission.

In summary, we found the following:

- Four long-standing, Department-wide management deficiencies continue to make HUD vulnerable to waste, fraud, abuse, and mismanagement. These deficiencies are weak internal controls, inadequate information and financial management systems, an ineffective organizational structure, and an insufficient mix of staff with the proper skills. While HUD has made progress in addressing these weaknesses, we have determined that much remains to be done and that therefore the Department continues to warrant the focused attention that comes with being designated by GAO as a "high-risk area."[2]
- HUD faces a variety of problems in its largest assisted and public housing programs. These include how to (1) continue providing Section 8 housing assistance to 3 million families while not undermining the funding for other important housing and community development programs, (2) reduce excess rental subsidies to some insured multifamily properties while minimizing insurance losses to the Federal Housing Administration (FHA) fund and ensuring that those properties meet basic housing quality standards, and (3) help public housing authorities deal with increasingly tight funding levels while ensuring a minimum level of oversight and assistance from HUD for the authorities with management problems.
- The Congress and the administration need to agree on the future direction of federal housing policy and put in place the organizational and program delivery structures that are best suited to carrying out that policy. Doing so will require revisiting fundamental issues about that policy, including whom the federal government will serve, how much will be spent on those being served, and how—via existing systems, block grants, devolution to states, or other means—those policies will be implemented.

Background on HUD's Programs and Budget

Established in 1965, HUD is the principal federal agency responsible for programs dealing with housing and community development and fair housing opportunities. Through its programs, HUD provides rental assistance to more than 4 million lower-income households, has insured mortgages for about 23 million homeowners, has helped revitalize over

[2]We identified areas throughout the government that are especially vulnerable to waste, fraud, abuse, and mismanagement and termed these "high-risk areas." See GAO's High-Risk Series (GAO/HR-97-1, Feb. 1997).

4,000 communities, and helps ensure that access to housing is equally available to all.

HUD is responsible for the expenditure of significant amounts of tax dollars. The net budget outlays for HUD's programs were close to $25.5 billion in fiscal year 1996, the vast majority of which was for assisted and public housing programs. HUD also is responsible for managing more than $400 billion in mortgage insurance, $464 billion in guarantees of mortgage-backed securities, and about $180 billion in prior years' budget authority for which it has future financial commitments.

HUD's Management Deficiencies

The HUD scandals of the late 1980s served to focus a great deal of public attention on the management problems at HUD. HUD's information and financial management systems were inadequate, failing to meet program managers' needs or to provide adequate oversight of housing and community development programs. These internal controls weaknesses were a major factor leading to the scandals. The organizational problems at HUD included overlapping and ill-defined responsibilities and authorities between the Department's headquarters and field organizations as well as a fundamental lack of management accountability and responsibility. Finally, an insufficient mix of staff with the proper skills hampered HUD's ability to effectively monitor and oversee its programs.

HUD's slow progress in correcting the fundamental management weaknesses that allowed the scandals to occur and a concern that HUD needed heightened congressional attention led us to designate the Department as a "high-risk area" in January 1994. In February 1995, we reported in more depth on HUD's management deficiencies as part of GAO's biennial High-Risk Series,[3] and, last month, we reported on the corrective actions that HUD has taken or initiated since our February 1995 report.[4] Because HUD is still working to correct its management weaknesses and, in some areas, has a long way to go, we have determined that the Department continues to warrant being designated as a "high-risk area."

HUD has made progress in addressing each of the major management deficiencies, but in most cases, much work remains for the Department before its actions will be complete. For example, HUD has made progress improving its internal controls, but major problems persist. HUD has implemented a new management planning and control program intended

[3]High-Risk Series: Department of Housing and Urban Development (GAO/HR/95-11, Feb. 1995).

[4]High-Risk Series: Department of Housing and Urban Development (GAO/HR-97-12, Feb. 1997).

to identify and rank the major risks in each program and develop strategies to abate those risks. Also, HUD has reported that its number of material internal control weaknesses dropped from over 51 in the early 1990s to only 9 at the end of fiscal year 1995.

However, we and HUD's Inspector General question the effectiveness of the Department's management control program in identifying material weaknesses and assessing front-end risks. For example, we noted in our review of the fiscal years 1995 and 1996 management plans prepared by several of HUD's major program areas that the only risks identified in the management control section of each plan were previously identified material weaknesses and the abatement actions were those previously outlined in HUD's report on compliance with the Federal Managers' Financial Integrity Act. In addition, the Inspector General stated that weaknesses existed in the management control program because HUD's major program areas were not performing front-end risk assessments on new or substantially modified programs, as required.

Furthermore, even though HUD has reduced the number of material internal control weaknesses, some of those remaining weaknesses are significant and long-standing. For example, these remaining material weaknesses (first identified in fiscal years 1983 through 1993) include weaknesses that affect more than $18 billion in subsidy funds that HUD disburses annually, primarily through its Section 8 and Section 236 programs. For both fiscal years 1994 and 1995, HUD's auditors were not able to express an opinion on the reliability of HUD's consolidated financial statements. The fiscal year 1995 audit of FHA's financial statements continued to identify internal control weaknesses, including a lack of staff and administrative resources for such tasks as performing loss mitigation functions, managing troubled assets, and implementing new automated systems.[5]

Much work also remains for HUD to improve its information and financial management systems. HUD has continued to make progress on these systems over the last 2 years, moving beyond the planning stages to where portions of major new systems are becoming operational. However, some of the projects involving major improvements to HUD's systems will not be completed before the year 2000. Furthermore, HUD reported in March 1996 that 93 out of 116 of its information and financial management systems did not meet the requirements of the Federal Managers' Financial Integrity Act

[5]Federal Housing Administration, Audit of Fiscal Year 1995 Financial Statements, prepared by KPMG Peat Marwick LLP for the Office of Inspector General (June 7, 1996).

and therefore could not be relied upon to provide timely, accurate, and reliable information and reports to management. As we said in our testimony last month,[6] conclusions about what the government is accomplishing with the taxpayers' money cannot be drawn without adequate program performance and cost information. HUD plans to replace or enhance these systems, but its efforts have been hampered by problems with systems development, funding constraints, and data conversion problems.

HUD has taken a number of steps to address the problems with its organizational structure. It has completed a field reorganization, which was intended to eliminate previously confused lines of authority, enhance communications, reduce levels of review and approval, and improve customer service; transferred direct authority for field staff and resources to the Assistant Secretaries in HUD headquarters; and, restructured its 81 field offices. HUD is continuing its reorganization efforts, which will include reducing headquarters staff, redeploying staff, and further streamlining and consolidating field activities. When we recently conducted a telephone survey of HUD's field directors about the Department's reorganization efforts, the respondents rated three areas as good or excellent—HUD's success in improving the lines of program management authority, empowering staff, and improving communications with headquarters and HUD's customers.[7] However, HUD has found that, to some extent, the reorganization has impaired communications across program lines at its field offices. HUD is taking actions, such as adding program integration requirements to senior managers' performance expectations and appraisals, that it believes will alleviate this situation.

HUD has made progress on its efforts to address the problems with staff members' skills. HUD has begun to implement a needs assessment process to plan future training. In addition, HUD has increased staff training and has begun to evaluate the effectiveness of its stepped-up training efforts. While the field directors we surveyed generally believed that the skills of their staff have improved over the past 2 years, 40 percent of these directors rated HUD's current training as less than good. The field directors also said that more training is needed in the use of information systems, the implementation of program regulations, HUD-related technical skills, and interpersonal skills. In addition, we and HUD's Inspector General continue to find staff resource problems in some of HUD's major program areas, including public housing and FHA.

[6]See footnote 1.

[7]HUD: Field Directors' Views on Recent Management Initiatives (GAO/RCED-97-34, Feb. 12, 1997).

HUD's Assisted and Public Housing Programs Face Difficult Management and Budget Problems

In addition to wrestling with critical agencywide management weaknesses, HUD faces a daunting task in managing the costs associated with (1) renewing Section 8 contracts for assisted housing, (2) the multifamily projects that FHA has insured, and (3) ensuring the soundness of public housing in a time of intense scrutiny and pressure on all housing programs in light of the move to reduce the budget deficit. As I mentioned earlier, these rental assistance programs serve more than 4 million low-income households; figure 1 illustrates the number of households currently receiving Section 8 tenant-based and project-based assistance and the number in public housing.

Figure 1: Number of Households in HUD-funded Assisted and Public Housing

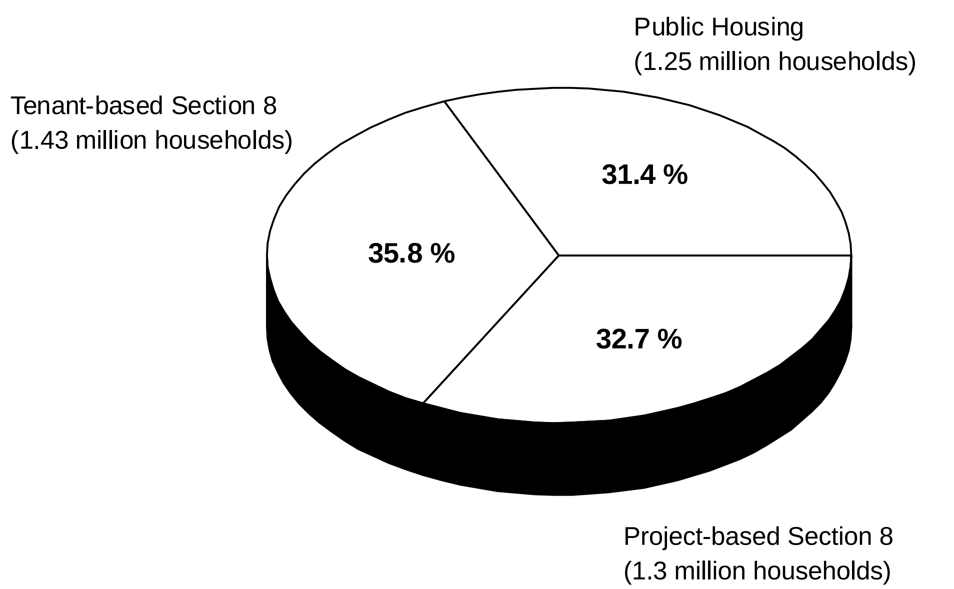
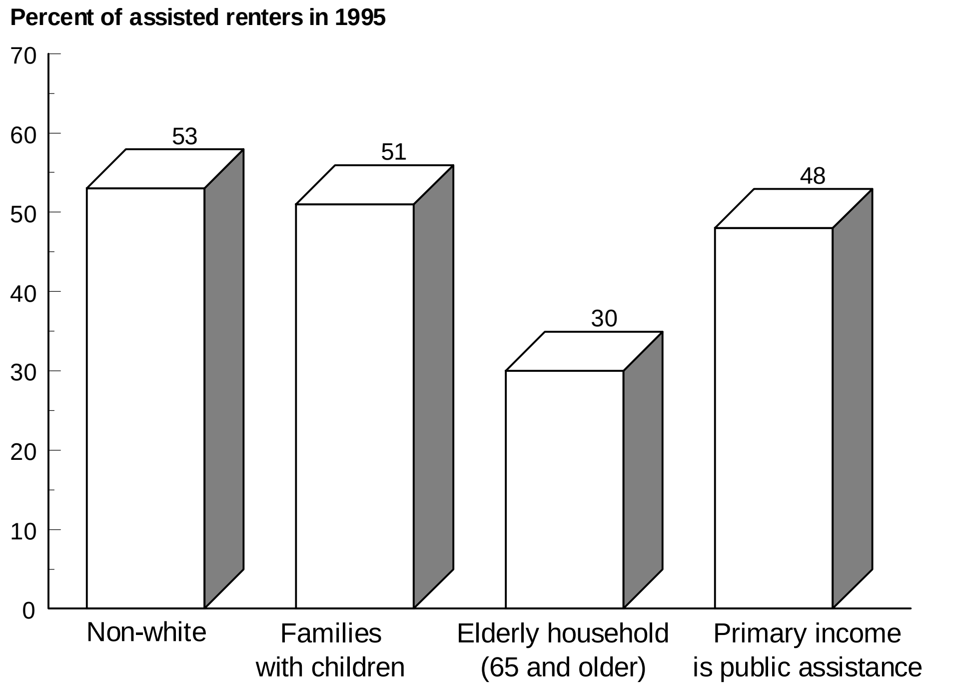


Figure 2 gives you an overall picture of whom HUD's rental assistance programs are serving.

Figure 2: Characteristics of HUD-assisted Renters



Retaining Support for Important Housing Programs in the Face of the Spiraling Costs of Section 8 Contract Renewals

Under Section 8 of the 1937 Housing Act (as amended), HUD contracts with public housing authorities and private property owners to provide housing assistance for low income families. In fiscal year 1998, Section 8 contracts covering 1.8 million housing units will expire, an increase of more than a million over 1997. To the extent that HUD may not have the budget authority to renew these contracts, the currently assisted families could face rent increases or displacement. Moreover, owners of many multifamily properties currently receiving Section 8 assistance will default on their FHA-insured mortgages if the assistance is withdrawn. (We address in greater detail those properties with FHA-insured loans later in this testimony).

Overall, the price of renewal is high and will increase over the next several years. Figure 3 shows HUD's estimates of over $9 billion for the fiscal year 1998 budget authority it will need to renew contracts covering over 1.8 million housing units; figure 3 also shows how the escalating needs for section 8 budget authority will soon surpass funding levels for all of HUD's other programs. As you can see in figure 4, this budget authority grows to over $21 billion by the year 2006. This amount exceeds HUD's total budget authority of about $19.3 billion in fiscal year 1997. With increases in budget authority of this magnitude forecast for the next 8 years, other long-standing HUD programs with significant funding could be at risk of being funded at levels less than would support their current commitments. These programs include public housing at more than $6 billion, community development block grants at nearly $5 billion, and homeless assistance at nearly $1 billion.

Figure 3: Budget Authority Required to Renew Existing Section 8 Contracts

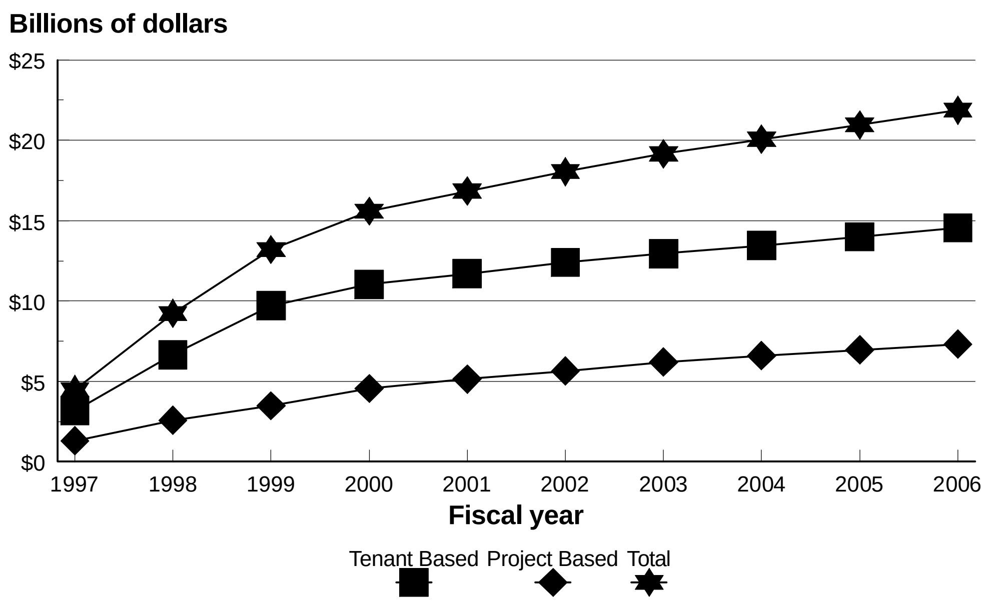
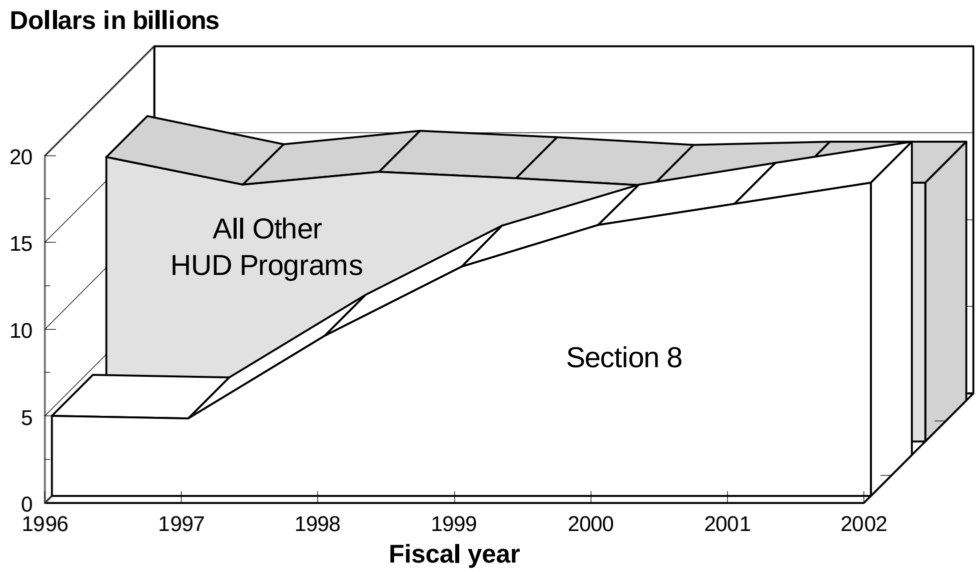


Figure 4: Budget Authority Required to Renew Existing Section 8 Contracts Through Fiscal Year 2006



Funding these programs as well as the Section 8 housing assistance program will be difficult in the face of other agencies' competing budget requests. The challenge for HUD will be to demonstrate that it is operating its programs efficiently, that it has planned realistic reforms that will lead to decreased costs, and that the programs themselves are achieving the goals and policy objectives that the Congress envisioned in creating them.

Costs Associated With Multifamily Projects

Over the past 2 years, HUD has begun the difficult process of attempting to resolve three basic problems affecting its insured Section 8 portfolio: high subsidy costs, high exposure to insurance loss, and the poor physical condition of some properties. In 1995, HUD introduced its "mark-to-market" proposal (subsequently renamed "portfolio reengineering"), through which it sought to (1) reduce subsidies by setting rents at market levels, (2) reduce the mortgages on those properties as necessary to achieve positive cash flows and terminate the FHA mortgage insurance on them, and (3) replace project-based Section 8 subsidies with portable tenant-based subsidies.

The insured Section 8 portfolio—the subject of the portfolio reengineering proposal—consists of more than 8,600 properties containing just under

859,000 apartments. The properties provide housing for a diverse population, including families and single adults as well as special-needs populations such as the elderly and the disabled. These properties have FHA insurance, loans with unpaid principal balances of nearly $18 billion, and receive project-based Section 8 assistance, much of which HUD provided under long-term contracts executed in the 1970s. Over time, these properties' Section 8 subsidies have increased dramatically, and today many of the Section 8 contracts are reaching their expiration. However, for many properties, reductions in the Section 8 subsidies without a reduction in the outstanding mortgage balances on those properties would lead to defaults and partial claims against FHA's insurance fund. This would happen because, without a continuation of the subsidy, many of the projects would not be economically viable.

Recognizing this predicament—properties that cannot command market rents high enough to cover their federally insured mortgages but which continue to receive excessively costly Section 8 subsidies—HUD proposed to restructure the FHA-insured mortgages and bring income and expenses into line so that they could operate on market rents. HUD's fiscal year 1997 appropriation includes a demonstration program covering those properties with contract rents exceeding 120 percent of fair market rents. For owners who are eligible for and agree to participate in this demonstration, HUD has the flexibility to use tools such as reinsurance, debt forgiveness, and second mortgages to decrease the escalating costs of Section 8 rental assistance, prevent mortgage defaults, protect residents against dislocation, and resolve associated tax issues.[8]

In 1996, HUD hired Ernst & Young LLP to study a randomly selected sample of 558 properties to obtain information about how HUD's original mark-to-market proposal would affect them. Subsequently, we selected 10 of the properties included in Ernst & Young's study as case studies and hired three licensed real estate appraisal firms to help assess the effects of HUD's proposal on them.[9] Among other things, Ernst & Young found that 60 to 66 percent of the properties in the insured Section 8 portfolio receive above-market rents and that $9.2 billion to $10.2 billion would be required to address deferred maintenance and future capital needs at the properties if they were to compete in the marketplace without project-based

[8]For owners who are eligible for but do not choose to participate in the demonstration, contract rents are reduced to 120 percent of fair market rents. For projects with rents below 120 percent of fair market rents, the appropriation requires HUD, if requested by the project owner, to renew the assistance contract for 1 year.

[9]Multifamily Housing: Effects of HUD's Portfolio Reengineering Proposal (GAO/RCED-97-7, Nov. 1, 1996).

subsidies. We believe that for the most part, the methodology and assumptions that Ernst & Young used were reasonable given their study's overall scope. However, for most of the 10 properties we reviewed, the study estimated substantially higher deferred maintenance needs than did the property owners or managers and our contract appraisers.

HUD's initiative to reengineer its portfolio recognizes a reality that has existed for some time—namely, that the value of many of the properties in the insured Section 8 portfolio is far lower than the mortgages on the properties suggest. Addressing the problems of HUD's insured multifamily portfolio will inevitably be costly and difficult. As the Congress evaluates the options for addressing this situation, the fundamental problems that have affected the portfolio and their underlying causes will be important to consider. Any approach that is implemented should address not only the high costs of Section 8 subsidies, but also the government's high exposure to insurance loss, the poor physical condition of some of the properties, and the underlying causes of these long-standing problems with the portfolio. The overarching objective should be to implement the process as efficiently and cost-effectively as possible, recognizing not only the interests of the parties directly affected by restructuring but also the impact on the federal government.

Ensuring the Soundness of Public Housing

About 3 million low-income people, many of whom are elderly or disabled, live in public housing, which is operated on a day-to-day basis by local public housing authorities (PHA). HUD currently provides PHAS with $5.4 billion a year to help them operate and modernize their projects. However, over time, the costs for PHAS have begun to exceed the financial resources available to them because their tenants' incomes—on which the amount they pay the PHAS in rent is based—have declined steadily over the last decade. In addition, over the last several years, the amounts appropriated for HUD's operating subsidy to the PHAS have not kept pace with the PHAS' expected costs. The recent welfare reforms could further reduce the rents that the tenants are able to pay if they lose welfare benefits without finding work. With funding for the PHAS increasingly tight, interest has been keen in knowing how well the PHAS are managing their properties and whether HUD has been adequately identifying and helping those PHAS having management problems.

Reducing Housing Authorities' Need for Operating Subsidies

HUD provides the PHAS with an operating subsidy to supplement the rent paid by residents because federal statutory requirements generally limit the amount that tenants may be required to pay to 30 percent of their income. Also, until recently, federal preferences for admission to public housing required the PHAS to give preference to admitting those who are usually the poorest of the poor. By concentrating the very poor in public housing, these preferences limited the PHAS' ability to meet operating expenses on their own and gave rise to the need for a subsidy from HUD to make up the difference between the rents that the PHAS could charge and what it costs them to operate their projects.

A decline in the average income of public housing residents since 1981 has led to a steady increase in the PHAS' need for operating subsidies. In 1981, the average income of public housing residents was 33 percent of the area median income, but by 1995 the average had dropped to 17 percent. As a result, 1982 operating subsidy needs were $1.5 billion, while in 1996 needs reached $3.1 billion (in nominal dollars). However, for several years in a row now, budgetary pressures and reduced appropriations have meant that HUD could not fully fund the difference between tenants' rents and the PHAS' operating costs—for example, in fiscal year 1996, HUD's subsidy was 90 percent of the PHAS' expected operating costs. In many cases, the effect of reduced operating subsidies can be that the PHAS defer routine maintenance, which, over time, can lead to deteriorated housing conditions and higher accrued needs for major rehabilitation and modernization.

Congress has proposed legislation and HUD has taken steps over the last 2 years to give the PHAS more flexibility in managing their properties to strengthen the long-term viability of this housing. These steps—public and assisted housing reform bills in both the House and Senate[10] and HUD's efforts to relax some requirements—are aimed at encouraging the PHAS to find additional sources of income and allowing them to admit tenants with a broader mix of incomes so that the PHAS have less need for an operating subsidy from HUD. For its part, HUD has attempted to increase incentives for the PHAS to generate additional nonrental income by allowing them to keep more of that income to meet their operating expenses. Previously, each dollar of extra income that a PHA generated reduced its subsidy by a dollar, thereby creating a disincentive to generating additional income from sources other than rent.

The Congress, HUD, and many of those in the public housing industry were in general agreement on the financial and other benefits of admitting tenants with a broader mix of incomes to public housing to better ensure

[10]The House of Representatives passed H.R. 2406, The United States Housing Act of 1996, and the Senate passed S. 1260, the Public Housing Reform and Empowerment Act of 1995. Agreement was not reached on a compromise between the two bills before the 104th Congress adjourned.

public housing's long-term viability. However, neither of the reform bills nor a compromise between the two has been enacted into law. As a result, each of HUD's last two annual appropriations included provisions temporarily repealing the federal preferences as well as other statutory requirements that were seen as limiting the PHAS' management discretion.[11]

The reforms that were contained in H.R. 2406 and S. 1260 would likely improve the long-term viability of public housing. The PHAS have agreed, telling us that reforms such as allowing them to admit tenants with incomes higher than those they currently house will enable them to adjust to possible reductions in the operating subsidies.[12] However, the PHAS also said that they need an adjustment period in which to admit new tenants before the subsidies are significantly cut; industry associations representing PHAS have said that the PHAS need more certainty that these reforms are permanent so that they know that they will not be operating under the old rules in the next new federal fiscal year.

In public housing, just as in a myriad of other HUD programs, there remains a need for HUD and the Congress to reach consensus on whom will be served and at what cost. While, over time, income mixing can help the PHAS meet more of their operating expenses on their own, adopting such a strategy comes at the expense of those very low-income people who have been given preference for admission to public housing for years. This strategy may also exacerbate worst-case housing needs among the poor, which, according to HUD, are at an all-time high.

Improving HUD's Oversight of Housing Authorities' Performance

With the funding for public housing increasingly tight, knowing how well the PHAS are managing their properties with the resources HUD gives them takes on added importance. However, we recently found that HUD's primary tool for measuring PHAS' performance, the Public Housing Management Assessment Program (PHMAP), needs to be more accurate and useful in order for HUD to ensure that it is identifying all of the PHAS to which it should be targeting its limited oversight and technical assistance resources.[13]

[11]For example, each appropriation waived the "one-for-one" replacement requirement, which mandated that the PHAs replace each unit of housing they elect to demolish with another unit or a Section 8 certificate.

[12]Housing and Urban Development: Public and Assisted Housing Reform (GAO/T-RCED-96-25, Oct. 13, 1995).

[13]Public Housing: HUD Should Improve the Usefulness and Accuracy of Its Management Assessment Program (GAO/RCED-97-27, Jan. 29, 1997).

HUD uses PHMAP to annually collect data from each PHA on basic indicators of management performance, such as vacancy rates and operating expenses. The PHAs submit and certify to the accuracy of most of the data on these indicators. On the basis of aggregate performance against these indicators, HUD calculates a score from 0 to 100 for each authority and assigns one of the following three designations: "troubled performer" for a score less than 60, "standard performer" for a score between 60 and less than 90, and "high performer" for a score of 90 or above. Troubled PHAs must enter into a binding agreement with HUD stipulating the problems the authority needs to address and an approach and timetable to resolve them. Standard- and high-performing authorities that fail any indicator must submit a plan for improving their performance in that indicator. HUD requires its field offices to go to troubled PHAs to verify the data that the PHAs submit (and thus, the PHMAP score) when those data would lead to a score high enough to remove the "troubled" designation.

We found HUD needs to do a better job of ensuring that all of its field offices comply with PHMAP's follow-up requirements and use PHMAP scores and other information available to them to better target their limited technical assistance resources. HUD's field offices have the bulk of the Department's responsibility for the day-to-day implementation of PHMAP, including negotiating the binding agreements required of troubled PHAs, approving improvement plans for standard and high performers, and monitoring the PHAs' progress in meeting agreed-upon goals to which they have committed themselves. However, according to the results of a survey of all of HUD's public housing field offices, we found HUD has not been systematically complying with PHMAP's statutory and regulatory follow-up requirements for all housing authorities. For example, in 1995,

- less than 20 percent of the troubled PHAs that should have been operating under a binding agreement with HUD actually were;
- nearly a third of HUD's field offices had not ensured that standard- and high-performing PHAs developed improvement plans for each indicator they failed; and,
- the field offices confirmed the accuracy of the data behind fewer than 30 percent of the troubled PHAS' PHMAP scores that HUD requires them to confirm.

Some field offices cited resource constraints—a lack of staff, travel funds, or expertise—as the main reason for not meeting follow-up requirements, while others opted not to enforce the requirements when they believed the PHAs were already addressing their problems. Differences in how the field offices interpret their role in helping the PHAs improve performance also played a part in the field offices' oversight and technical assistance activities. Some field offices told us they interpret their role narrowly, generally limiting their assistance to advice, information on complying with HUD's regulations, and suggestions for solving management problems. Others were more willing to get involved in the PHAS' operations by performing tasks such as setting up proper tenant rent records and waiting lists.

The bottom line is that HUD is not maintaining a consistent, minimally acceptable level of oversight at all PHAs. Without this oversight, HUD cannot be reasonably confident that the housing authorities are using federal funds appropriately, managing and maintaining their developments properly, and reporting performance information accurately.

Future Federal Housing and Community Development Policy: Coming to Consensus on HUD's Mission

Since it was created in 1965, HUD has grown to include some 240 programs and activities (according to a December 1994 report by HUD's Inspector General) and hundreds of billions of dollars in financial commitments. Through its multiple social and financial roles, it directly or indirectly affects most Americans. Over the years, we and others have criticized the inefficiencies in HUD's organization and the deficiencies in its management. Leaders in the administration and in the Congress agree that HUD must, at a minimum, be restructured to better meet the nation's housing and community development needs. Some policymakers believe that HUD's problems are so great that they can be cured only by dismantling the agency and transferring or eliminating its functions. In its initial Reinvention Blueprint, HUD proposed major changes, including consolidating programs, devolving responsibility for program design and implementation to states and localities, and HUD's assuming the role of overseer and clearinghouse for national models. While some limited, yet significant, improvements to HUD's existing program structure have been made, a comprehensive redesign of HUD's overall mission and program delivery structure has not occurred. Likewise, various bills to fundamentally restructure HUD's programs to subsidize multifamily rental housing also have been proposed, but thus far none has been enacted.

HUD's programs will remain at high risk to fraud, waste, abuse, and mismanagement until the agency completes more of its planned corrective actions and until the debate over HUD's future—in which the Congress must participate—is settled. In our view, the Congress now has an excellent opportunity to help HUD eliminate the deficiencies that make it a high risk and to align the agency's management responsibilities and capacity by authorizing a major restructuring strategy that focuses HUD's mission and significantly consolidates, reduces, and/or reengineers its many separate program activities. What is needed now is for the administration and the Congress to agree on the future direction of federal housing and community development policy and the organizational and program delivery structures that are best suited to carry out that policy—a process that will involve inherent trade-offs between the needs of those seeking HUD's assistance and other demands on the total federal budget. As the Congress provides input to HUD's and other agencies' strategic plans, as required by GPRA, it can insist that agencies show how their programs are aligned with related efforts in other agencies.[14] Congress can also use the GPRA planning process to seek opportunities to streamline government by comparing the effectiveness of similar program efforts carried out by different agencies.

Mr. Chairman, this concludes our prepared remarks. We will be pleased to respond to any questions that you or other Members of the Subcommittee might have. We in GAO look forward to working with the Congress to help address HUD's management deficiencies and their impact on housing and community development programs.

[14]In order to successfully implement the initial requirements of GPRA, HUD must prepare, by the end of this fiscal year a strategic plan that includes a statement of its mission.

Related GAO Products

Public Housing: Status of the HOPE VI Demonstration Program (GAO/RCED-97-44, Feb. 25, 1997).

Housing and Urban Development: Potential Implications of Legislation Proposing to Dismantle HUD (GAO/RCED-97-36, Feb. 21, 1997).

Managing for Results: Using GPRA to Assist Congressional and Executive Branch Decision-Making (GAO/T-GGD-97-43, Feb. 12, 1997).

HUD: Field Directors' Views on Recent Management Initiatives (GAO/RCED-97-34, Feb. 12, 1997).

GAO High-Risk Series (GAO/HR-97-1, Feb. 1997).

High-Risk Series: Department of Housing and Urban Development (GAO/HR-97-12, Feb. 1997).

Public Housing: HUD Should Improve the Usefulness and Accuracy of Its Management Assessment Program (GAO/RCED-97-27, Jan. 29, 1997).

Multifamily Housing: Effects of HUD's Portfolio Reengineering Proposal (GAO/RCED-97-7, Nov. 1, 1996).

Public Housing: Partnerships Can Result in Cost Savings and Other Benefits (GAO/RCED-97-11, Oct. 17, 1996).

Housing and Community Development Products 1995 (GAO/RCED-96-248W, Aug. 1996).

Multifamily Housing: HUD's Portfolio Reengineering Proposal: Cost and Management Issues (GAO/T-RCED-96-232, July 30, 1996).

Multifamily Housing: Issues Facing the Congress in Assessing HUD's Portfolio Reengineering Proposal (GAO/T-RCED-96-231, July 26, 1996).

Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 20, 1996).

Housing and Urban Development: Limited Progress Made on HUD Reforms (GAO/T-RCED-96-112, Mar. 27, 1996).

Housing and Urban Development: Public and Assisted Housing Reform (GAO/T-RCED-96-22 and GAO/T-RCED-96-25, Oct. 13, 1995).

Public Housing: Converting to Housing Certificates Raises Major Questions About Cost (GAO/RCED-95-195, June 20, 1995).

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